

Community Foundation for Monterey County

Operating Reserve Policy

Approved August 2012

Amended June 28, 2016

Amended June 25, 2019

Amended April 28, 2020

The Operating Reserve Policy (Policy) defines the nature of the CFMC's operating cash assets and establishes goals and guidelines for minimum balances. The Policy does not pertain to cash that is held in the CFMC's investment portfolio, which is governed by the Investment Policy Statement. Nor does it pertain to the CFMC's administrative endowment, which is a permanently restricted, endowed fund whose exclusive use is the support of CFMC operations.

The CFMC's operating cash assets fall into four categories: 1. operating reserve; 2. cash on hand; 3. building reserve; and, 4. board designated reserve.

Definitions

The **operating reserve** is a designated cash amount that is held in reserve for urgent operating needs and to assure the financial health of the CFMC. Operating reserves can be set as a percentage of the annual operating budget or a fixed amount. Usage of the operating reserve requires board approval. Currently the CFMC has an operating reserve of \$500,000. This fund, and the reserve amount, was established by vote of the board. These funds may be invested in the medium-term portfolio.

Cash on hand is the cash available for normal operations and capital expenditures of the CFMC. Calculation of a monthly cash on hand figure should be net of the operating cash reserve, building reserve and board designated reserve. Since fees on funds (the CFMC's primary source of operating revenue) are taken quarterly, cash on hand varies from month-to-month. Cash on hand should equal 4 - 8 months of the current year's operating budget. When cash on hand exceeds 8 months at either June 30 or December 31, and the operating reserve and building reserve are fully funded, the Finance Committee shall consider whether any amounts in excess shall be placed into the board designated reserve. **If cash on hand dips below four months at June 30 or December 31, the Finance Committee will discuss recommending accessing the Operating Reserve and/or finding expense reductions in the operating budget.**

The **building reserve** is an amount set aside for significant, unanticipated expenditures that improve or maintain the structural and operating integrity of CFMC-owned facilities. The building reserve is \$150,000, and was established by vote of the board in June 2012. The amount was based on a consultant's report that sought this information. It was funded in five annual installments. A reserve study should be conducted every five years to insure the adequacy of the fund. A review was performed in 2017; no change was recommended. The building reserve is invested only in cash instruments.

The **board designated reserve** consists of funds in addition to the funds listed above, nor are the board designated reserves part of the CFMC's grant making pool. Should the board so designate, the board designated reserve can reside in the CFMC's portfolio, be held in cash or in other investment instruments. Use of the fund is at the board's discretion. The fund can serve as additional operating reserves, be allocated to special projects, utilized for grant making or any other mission-related purpose the board deems appropriate. The board retains the flexibility to alter the use of the fund based on organizational or community need. They are generally comprised of operating assets that have accumulated beyond the designated balances of the operating reserve, cash on hand and the building reserve, or derive from planned gifts that name the CFMC's operations as beneficiary. (The CFMC's board has legal authority to place any unrestricted gift into any of the funds listed above. However, the CFMC's current practice, approved by the board, is to place all unrestricted bequests into the general endowment for the support of grant making.) Currently, there is no board designated reserve fund, as year-end cash on hand has only recently exceeded eight months and levels of uncertainty compelled the Finance Committee to keep the excess in cash on hand.

Annual review of this policy and the amounts specified for each of the operative reserve funds is the responsibility of the CFMC finance committee. Changes to the policy will be recommended to the board of directors.